29

ENRON CORPORATION

Moderator: Kenneth Lay
October 23, 2001
8:30 a.m. CT

Operator: Good morning, everyone. Welcome to the Enron conference call. This call is being recorded.

At this time. I would like to turn the call over to Chairman and Chief Executive of Officer, Mr. Kenneth Lay. Please go ahead, sir.

Kenneth Lay: Good morning. This is Ken Lay. Thank you for joining us today.

I have with me in the room here Mark Frevert, the Vice Chairman; Greg Whalley, President and Chief Operating Officer of Enron; Rick Causey, Executive VP and Chief Accounting Officer; Andy Fastow, Executive Vice President and Chief Financial Officer; Steve Kean, Executive Vice President and Chief of Staff; Mark Koenig, of course, Executive Vice President of Investor Relations; and Ben Glisan, Managing Director and Treasurer.

We decided yesterday to set this call to address questions and concerns raised over the last few days. To say the least, we are very, even extremely disappointed with our stock price, particularly since our businesses are performing very well, and we are continuing to conduct business as usual.

questions surrounding the equity adjustments since the call. So we want to take the opportunity to clearly spell out the basis of that adjustment.

A structured finance vehicle in which LJM was an investor, was established to mitigate volatility associated with certain of Enron's merchant investments, including investments in the new power company, technology and other investments of Enron.

In conjunction with the recent termination of these vehicles, Enron recorded a $1.2 billion reduction in shareholders' equity and a corresponding reduction in notes receivable.

These adjustments were the result of Enron's termination of obligations to deliver Enron's shares in future periods. Although this obligation equated to 62 million shares, and this was reflected in our fully diluted shares outstanding, the obligation to issue shares in the future no longer exists. And as (such), the shares will no longer be factored into the – our EPS calculation.

The 10-Q will reflect the final, proper reduction of 62 million shares, as calculated, using Enron's actual share prices during the third quarter.

If you have additional questions on these adjustments, I will address them at the end of the call. I now would like to turn the discussion over to our CFO, Andy Fastow, to discuss our current liquidity position and credit rating.

I might add that I and Enron's Board of Directors continue to have the highest faith and confidence in Andy, and believe he is doing an outstanding job as CFO. Andy?

Andrew Fastow: Thank you very much, Ken, and thank you for those last comments. We have, in fact, received questions recently about both our liquidity and the outlook for the Enron Corp. credit. I'd like to briefly address both of these issues now.

First, regarding liquidity. Enron expects to continue to have sufficient liquidity to conduct normal operations and to meet all of its projected capital requirements. We have committed credit facilities with domestic and foreign banks, which provide for an aggregate of $3.35 billion in credit. These bank lines are undrawn, but act as the backstop for the company's issuance of commercial paper. Additionally, the company utilizes on a consistent basis, uncommitted lines in excess of $500 million.

With respect to commercial paper, currently our commercial paper balance is approximately $1.85 billion, and that's net after consideration of cash balances on deposit, resulting in approximately $1.5 billion of liquidity available from committed sources today.

We continue to issue commercial paper, and we have not drawn on our bank revolvers. Additionally, we have not experienced any material increase in our funded CP balances over the past two weeks.

Our policy of maintaining liquidity levels under committed lines of credit that are a multiple of projected cash requirements remains in effect. In addition to the $1.5 billion in unused commitments, we expect to receive in excess of $600 million in proceeds from asset sales, and these were discussed in the third quarter conference call.

These proceeds should be realized in the fourth quarter, perhaps as soon as within 30 days. And I would like to remind everyone that we have entered into a definitive agreement to sell Portland General to Northwest Natural Gas for approximately $1.9 billion, and the assumption of $1.1 billion in Portland General debt. Subject to normal regulatory review, this transaction is scheduled to close by the end of 2002.

Also with respect to liquidity, we have spoken to our key banks, all of our key banks. And based on these conversations, we expect to have their continued support.

Now, turning briefly to the credit ratings, both Standard & Poor's and Fitch have confirmed our triple B plus rating, and have kept us on stable outlook.

We are currently rated B double A one at Moody's. That has not changed. However, Moody's has place Enron on review, and we're now working with Moody's to address specific questions in order to facilitate their review.

We understand that our credit rating is critical both to the capital markets, as well as to our counter-parties.

Ken? After you.

Kenneth Lay: Great. Thank you, Andy.

As we discussed in the earnings conference call last week, our third quarter recurring operating results were outstanding, with a 26 percent increase in recurring earnings per share, and a 65 percent increase in our physical volumes.

These results reflect the superb performance of our core wholesale, retail and pipeline businesses. We are continuing to stay focused on our businesses, and remain well positioned for continued success.

And with those brief comments, we would welcome your questions. Is the operator there?

Operator: Yes. Are you ready to take questions?

Kenneth Lay: We're ready for questions.

Operator: All right. Thank you. The question-and-answer session will be conducted electronically. If you would like to ask a question, please do so by pressing the star or asterisk key, followed by the digit one on your touch-tone telephone. We will proceed in the order that you signal us. And we'll take as many questions as time permits. Once again, please press star, one, on your touch-tone telephone to ask a question. And we will pause for just a moment.

Kenneth Lay: Operator, you got somebody on? Hello.

Operator: We'll take our first question from Kevin Boone, Bear Stearns.

Kevin Boone: Hi. Can you tell me about the uncommitted bank facilities you have, just in terms of the size and potential maturity dates for those revolvers.

Male: Ben Glisan, please.

Ben Glisan: Certainly. The largest of them is a $550 million loan sales facility that JP Morgan Chase agents, on our behalf. That is a program that supplements our CP program. And we issue under it actively. In fact, at the moment, I believe we have approximately ($350).

Kevin Boone: OK. That's the only – that's the only revolver you have outstanding, other than the ones we use for CP backup?

Ben Glisan: That's the only uncommitted facility we have outstanding debts...

Kevin Boone: OK.

Ben Glisan: ... in addition to the committed facility that Andy spoke to, totaling 3.35 billion.

Kevin Boone: But those are – those are again, for – primarily for CP backup. Is that right?

Ben Glisan: The $3.35 billion of revolving credit – committed revolving credit facilities are composed of three facilities. One is $1.175 billion 364-day facility, which is due in May of '02. The second is a $1.25 billion five-year facility due in May of '05. And then, the third is a $355 million 364-day insurance wrap (A-1 P-1) facility due in March of '02. All of those are committed facilities. None of them have been drawn and serve to back up our CP program.

Kevin Boone: I see. Great. That was the information I needed. Thanks.

Ben Glisan: OK. Yes. I think it's important to note, on those facilities, there is no (max) clause and there's a single financial covenant requiring debt to cap, not to exceed 65 percent, which is very lenient. And we, you know, feel very confident and comfortable in all of the terms and conditions of those facilities.

Operator: Mr. Boone, was there anything further?

Kevin Boone: No. That's it. Thanks.

Operator: Thank you. We'll take our next question from Curt Launer, from CS First Boston.

Curt Launer: Good morning. Curt Launer, from CSFB. I just want to go back and try to recreate some of the accounting that went on during the year 2000 pursuant to what was already disclosed in the footnotes. In other words, had the partnerships not been part of certain of the transactions during the year 2000 and, in fact, if we were trying to recreate the income statement, what would have or could have the earnings been in broad terms?

And then, if we could move that question ahead and talk about where we would be in the year 2000 and 2001, knowing that you've talked about $1.80 into 2001 and $2.15 in 2002. It looks to me like those would still be the estimates we would use regardless of the impact of the partnerships. But I do want to go back to 2000 first and establish the base relative to the broadband and other entries that the partnership was involved in.

Male: Can we do that? Rick Causey, Chief Accounting Officer.

Rick Causey: Curt, it's Rick Causey. The best guidance I can give you on that is that there are disclosures that show the impacts of the transactions with these (entities), related-party footnotes (for either of) those ((inaudible)) looking backwards. ((inaudible)) forward estimates ((inaudible)) income ((inaudible)).

Male: The $1.80 for this year and the 2.15 for next year will remain unchanged, unaffected.

Curt Launer: OK. That is the critical issue, obviously. But I did want to go back to 2000 and reference some of the things that have already been disclosed. There's $35 million relative to (dark) fiber sales and so on and so forth. And to some degree, those transactions could have occurred with or without the partnership. But the fact of the matter is, they did occur with the partnership in place. So if that's the order of magnitude that we're talking about, we know how to adjust for that.

Male: Well, that's correct. Again, what I referred to was, in fact, the revenues associated with the partnerships that were disclosed have always been disclosed as related-party transactions. You are correct in that obviously these actions were done with the partnerships. They could have obviously been done with other entities, as well, (if) that were the case, with the similar results

Male: Yes. I think that's the answer, Curt. I mean, I think they were done at the partnerships But they could have been and would have been done elsewhere. And there would have been no impact on the – on the earnings.

Curt Launer: OK. Thank you. That is the key question.

Operator: We'll next take a question from Jonathan Reiss, with John Levin & Company. Mr. Reiss?

Female: Operator, let's continue.

Operator: OK. We'll take our next question from David Knott, with Knott Partners

David Knott: You, when you were at the Lehman Brothers, promised to be more transparent with your financial disclosure. And yet, you just issued a quarterly release and you don't give us a balance sheet. Is there a reason for that?

Male: David, in fact, the balance sheet, it usually doesn't come together until a week or so after the earnings are, in fact, concluded.

David Knott: When will we be provided with one?

Male: Well, we typically provide that at the time of the 10-Q. It will be filed, obviously, by November 14th.

Male: What we have...

David Knott: Are you taking the full time to file it?

Male: That's historically what we've done. We endeavor to file it as soon as possible. Typically, that's been on ((inaudible)).

David Knott: Well, if the balance sheet's available a week after the – it's put together a week after the earnings, could it not be made available sooner?

Male: David, we will look at that. And, indeed, in future quarters, we may even reschedule the time when our earnings release comes out so, in fact, we can provide both earnings and balance sheet at the same time.

David Knott: Thank you, because it'd be helpful.

Male: Next question.

Operator: We'll next – take the next question from Raymond Niles, with Salomon Smith Barney.

Raymond Niles: Good morning. One of my questions has been asked already in regard to the earnings. But I wanted just to clarify so I fully understand it with regard to the reduction in shares outstanding and what the opposite entry is that results in no net change in EPS. Maybe you can once again, clarify that, the 62 million shares.

Male: Ray, the – I'm not sure of your last point about no change ((inaudible)). It is correct that the 62 million shares were – was the impact on fully diluted shares outstanding in the third quarter. In the fourth quarter, there will be no shares outstanding associated with this (because) obviously, since the transaction is ((inaudible)). Does that answer your question, Ray

Raymond Niles: So shares outstanding is reduced by 62 million shares for purposes of the EPS calculation?

Male: That is correct. There's – the number was approximately (912, I believe, million shares) at the third quarter. And you'll see something roughly 60 million short of that. Obviously, there's other things that impact that quarter to quarter. But expect something more in the 850 range.

Raymond Niles: Would there have been any reason to increase earnings guidance on an EPS basis?

Male: Ray, we've not because obviously, you know, we started off the year with guidance of $1.70 – $1.75. We've increased that to $1.80. But we've held that $1.80 despite, obviously, the economy going somewhat softer. And we think we can certainly make the $1.80. But we certainly haven't had an increase ((inaudible)). But we still – we still have (2.15) for next year, at least – at least for the time being.

Raymond Niles: OK. Thank you.

Operator: We'll next take a question from Rose Eiland-Smith, with White Asset Management.

Rose Eiland-Smith: Good morning. I have three questions. The first question is about the bank commitment covenant for debt to capital to remain lower than 65 percent. Could you define for us what constitutes debt in that covenant calculation and indicate whether there are any conditions under which the Marlin Water Trust or other off balance sheet financings would be included in that calculation?

Male: They are not. I would hesitate to attempt to define the debt use. You recall, the definition of debt, as I don't have the revolver here with me, but those instruments are not included in that calculation.

Rose Eiland-Smith: OK. So, there would be no, say, rating change triggers or anything that will cause them to become part of that debt calculation?

Male: That is correct.

Rose Eiland-Smith: OK, thanks Second question is about Marlin Water and the other trusts. With near term debt maturities, what is Enron's current plan for paying those maturities in terms of your funding mechanism? Are you focused now on asset sale proceeds, or do you plan to proceed with marketing, convertible preferred held in trust? And the other part to the second question is about the rating agency requirements for retaining or maintaining Enron's current ratings and the impact of the funding mechanisms that you choose for these near term maturities on your ratings?

Male: Certainly. In the case in each of the Asbury transaction and the ((inaudible)) transaction, the intent is to repay those financing through asset dispositions. If in fact we have to supplement the proceeds of asset dispositions with equity proceeds, we would do so.

Andrew Fastow: This is Andy Fastow. Let me add to that, that as mentioned by Ken in the third quarter call and we briefly touched on it here again today, we have, I think, begun in earnest our asset disposition program. You've seen announcements over the course of the last couple of months announcing the sale of agreements – definitive agreements for the sale of our (Segrio) property in South America, (Echo Electrica), our India E&P properties, as well as Portland General And so, if you begin to add all of those cash proceeds together, there is a significant amount of cash that to be received by Enron if on closure of these transactions.

Rose Eiland-Smith: OK. I understand that. And I guess it's in light of having heard about those prior plans that I asked the B part of the question, which relates to the rating implications of using asset sale proceeds to make these payments, given that the trust structures were originally contemplated to be off balance sheet in order to help preserve Enron's rating on the premise that Enron wouldn't need to support these debt maturity repayments by selling their own assets.

Male: Well, I have two comments to that. One, over the life of these trust structures, Enron has in fact issued sizable amount of equity, principally through its deferred compensation. So, from that perspective equity has been issued over the life, and that was expected by the agency. Secondarily, certainly we believe that we will dispose over time the assets held by the trusts. We have discussed with the agency that it may well be that we dispose not only of assets of the trust but additional assets as well. And the agencies have taken those comments into consideration in there.

Rose Eiland-Smith: What assurance do you have that if you do use asset sale proceeds to pay off these near term maturities that the agencies won't change their leverage calculation to put all your off balance sheet debt on balance sheet based on this demonstrated support of off balance sheet financing that occurs with the repayment of near term maturity for asset sale proceeds?

Male: Again, we have fully discussed these mechanics multiple times with the agencies and remain confident and comfortable with the mechanic as described.

Rose Eiland-Smith: OK. Thanks. My last question is about CP finance findings and cost trends. Can you just comment on how recent CP issuance costs compare to, say, year over year costs or whatever in terms of giving us an idea of how much those costs may have increased?

Male: Sure. As you know, the base rate has declined substantially. So, the (all in) rate is very inexpensive on historical terms. The spread is wide by historical standards, but not unreasonably so. Yesterday's cost and placement of CP was approximately three percent annualized. It pushed CP out into November.

Rose Eiland-Smith: And how does that spread compare, say, year over year or...

Male: The spread in that market is quite volatile. So, at times the spread could be as tight as 10 to 15 basis points to LIBOR and, at times, as wide as 50 or more. So, by historical standards, it's wide, but not unprecedentally so, especially when there are disruption in the CP market and multiple users in the (H&P) market special.

Rose Eiland-Smith: OK. So, it's on a 50 or more end of that spectrum right now?

Male: Yes.

Rose Eiland-Smith: OK, thank you.

Operator: We'll next hear from Richard Grubman with Highfield Capital.

Richard Grubman: Yes. Hi. Good morning. To follow up on the last questioner's inquiry, the assets that you announced for sale, such as Portland General, are not assets of Marlin or Osprey. And I guess in light of the $3.35 billion of capacity you outlined against which $1.850 of CP is already drawn, Marlin – my question is about reserves with respect to Marlin.

Marlin's got roughly $1 billion of financing outstanding due in the next 18 months or so. All the proceeds from Marlin's debt issue were basically paid to repay the loan to Enron Water, which left Marlin with a third of Azurix, which based on the math you gave us on the write down of your own shares of Azurix last week is worth about $100 million. So, it would appear that the support of your imminence remain in that case to the tune of almost $1 billion. Have you taken any reserves against that liability?

E 31145

Rick Causey: This is Rick Causey. The point I would make is that the Marlin Trust structure has assets in it, as you said of Zurich's – obviously Azurix – I'm not sure of the math you've done to come up with that calculation. The point I would make is that Azurix continues to owner of Wessex Water, which is a very successful utility with a lot of value, obviously located (in).

Richard Grubman: Well, again, you valued Azurix at about $900 million when you bought the third in at eight and three-eighths a share. And you own two thirds and the Water Trust owns half and Marlin owns – I don't know if it's two thirds, but Marlin owns half of that. So, that's a third. So, if – so, Marlin's stake is 300 on the original 900 and then you wrote your 600 down 287 after tax, or roughly 400 pretax. You wrote it down by two thirds. So, rough numbers, the 300 at Marlin becomes 100 and there are no other assets other than the block of Azurix

And Azurix, as you say, owns Wessex. Azurix also has close to $2 billion of its own debt. So, if the piece is worth the same amount in both pockets, am I pressing, I guess, those stands? It looks to me like you have close to $1 billion liability that is going to be supported exclusively by Enron's support agreement. And I'm curious why to the last question at this point there have been no reserves or no inclusion of that liability in the overall liabilities of the company.

Male: I think the only clarification that might help you, Richard, is that the – what loss we recorded in the third quarter associated with our portion of a Azurix's impairment of certain assets on their book, not a write down of our investment at (Azurix's pull). So, we pick up our equity interest, their income or loss. If it's a loss, we associate it with the write down of certain assets that are now being held for sale by Azurix.

Those assets were written down to net realizable value, basically market value ((inaudible)) that they're being held for sale. We picked up our share of that loss as would be required under equity accounting. The remaining assets Azurix principally Wessex was considering both

Azurix's overall position and any other additional impairments that need to be made and ours. We're comfortable with where we stand on it.

Richard Grubman: So, in the best case, the asset's worth $300 million, in which case the deficiency is $700 million. What's...

Male: I would point out obviously that you can't – you're mixing historical cost accounting and market value, assets that have value in excess of what they may be on the books that are not written up.

Richard Grubman: OK. So, please tell us what the $1 billion worth of assets at Marlin is.

Male: It's the Azurix and Wessex Water.

Male: It's mainly Wessex Water, Richard. And...

Richard Grubman: But the Wessex is owned by Azurix.

Male: Correct.

Richard Grubman: So, you can't count them both. If the Wessex is owned by Azurix, what's the Azurix worth including Wessex?

Male: Again, the charge taken in the third quarter reflects to – relates to reflecting all assets held for sale by Azurix to market value, and we picked up our share of that.

Richard Grubman: Fine. Let's go back to the transaction where you bought a third of Azurix for roughly...

Kenneth Lay: Richard, let me intercede here for a minute. Wessex Water is the asset remaining in Azurix. That's 99 – or 90-something percent of it. And, in fact, even over the last month or six weeks our outside auditors have reviewed Wessex and in fact have determined that there is no impairment required. Now, I know you want to drive the stock price down, and you've done a good job at doing that, but I think that's that. Let's move onto the next question.

Richard Grubman: That's pointless.

Kenneth Lay: Let's go to the next question, Richard. You're monopolizing the conference. We've got a lot of people out there with real serious questions.

Richard Grubman: In difference, I would appreciate an answer to the question. That's fine if you move on. I think everybody understands why. Thanks.

Male: I think in fact we've answered the question, but you won't accept our answer. Let's move on.

Operator: Next we'll hear from Howard Kaminsky with King Street Capital.

Howard Kaminsky: Hi. I certainly don't want to beat a dead horse. What I would like to know is there are a number of off balance sheet financing – Marlin, Osprey. And it's very confusing to me to try to understand what the true potential dilution might be to the extent that there was a trigger event. Now, I'm not suggesting that there will be one, but I'm just trying to gauge how much potential dilution there might be to the shareholders to the extent that you were downgraded to below investment grade. That's...

Male: Well, I will start off with that. First of all, we'd have to be downgraded three notches to go below investment grade. And there's – at least we don't think there's any chance of that. But, Dan or Andy, you want to add?

Male: That's fine, thanks. I think that says it all.

Male: And, indeed, I will reemphasize, since I'm on the phone, that we are committed to maintaining our rate. We've said that repeatedly. We're working -obviously, with two of the three rating agencies have already confirmed our ratings. Certainly, Moody's – we're working with Moody's. Moody's says they want to work with us. And we are committed to maintaining our ratings.

Rick Causey: I guess – this is Rick Causey. Just another comment on those as it relates to both of those entities you referred to. They are, again, a traditional asset ownership structure with underlying debt on their books. Obviously, in the event of any event, the assets are the primary source of repayment of all the obligations of those entities. And to the extent that those assets were to be sold or something, that would be the primary source of repayment of any debt or equity associated with these entities.

Our – the double triggers that have been referred – or at that point, any shortfall then would be – would default to Enron and again be repaid with proceeds from whatever source we deemed appropriate to fund those proceeds. But to answer your question is a difficult one because it would require us to assume that (all of these) were wound out today and exactly what proceeds. Again, we feel like that the overall structures are appropriate and that the assets can be used to support the underlying.

Male: And to Ken's point, our rating is strong and we will in fact defend it.

Howard Kaminsky: I understand. Could you just tell me what was the whole purpose behind the Osprey transaction?

Ben Glisan: I could speak to that. In...

Kenneth Lay: And this is Ben Glisan, the Treasurer.

Ben Glisan: In '97 and '98 Enron invested in a number of different areas simultaneously and we were expanding a couple of our different larger businesses. That was creating balance sheet expansion. And there was as fundamental capital structure ((inaudible)), which was to either expand the balance sheet permanently at that point or ultimately be deployed capital from other sources to accommodate that incremental investment. These structures accommodated that latter decision. That is precisely what occurred. So, these structures provided Enron a period of time over which it could sell either the assets in the structure or raise other capital, thus that it would not have to permanently expand the balance sheet at the time the other investments ((inaudible)).

Kenneth Lay: And I will underscore again that the assets in these instruments are, for the most part, traditional energy assets – power plants, gas distribution businesses and so forth. And again, as Rick said, we think the value of the assets fully support these instruments.

Howard Kaminsky: Well, the asset – Osprey is collateralized by the limited partnership investment. I take it the real assets are held at Wingate.

Ben Glisan: Yes. The partnership that Osprey invests in a partnership called White Wing...

Howard Kaminsky: White Wing, I'm sorry.

Ben Glisan: And White Wing has two classes of assets. One class, as Ken mentioned, are traditional energy investments that are held globally, so some European power stations, Central American, Latin American energy equity investments and so forth, as well as Enron stock. That – a convertible preferred.

Howard Kaminsky: Right Just the marketable preferred.

Ben Glisan: Correct.

Howard Kaminsky: I just want to reiterate that to the extent that when these securities mature in '03, if there is a deficiency, that Enron will meet that deficiency with either proceeds from asset sales or equity contribution.

Ben Glisan: Yes.

Howard Kaminsky: Thank you very much.

Kenneth Lay: And again, we think the proceeds will be – based on current valuations, we think the proceeds will be adequate to cover that.

Next question, please.

Operator: We'll next hear from Dan Nordby with Alliance Capital.

Dan Nordby: Good morning, Ken. A couple of questions Let me take a stab at a worst-case scenario here. And I'd appreciate you telling me where my thinking is off. On this junior convert preferred, the $1 billion roughly, if by some calamity the (make hold) provisions got triggered by the stock price and downgrades and assuming you couldn't raise a penny in assets. which of course is not true, with the stock down here in the low 20s, presumably you'd have to issue about 50 million shares of stock to make that whole, which would be about eight percent dilution. Is that a worst-case scenario here on this?

k

Kenneth Lay: Actually, for the Osprey transaction, which is the transaction you're describing, in your math, which I agree is the absolute worst case, the total proceeds that would need to be raised is not $1 billion but rather $4 billion. But that's why we continue to say that asset dispositions will make up the largest component of those proceeds. And, in fact, as Andy mentioned we're well on our way facing those proceeds.

Dan Nordby: So, that implies that to the extent you couldn't under a worst worst-case get anything for the assets, there'd be something on the order of, what, 16 to 18 percent dilution or more?

Male: You'll have to trust your math. I don't have my calculator in front of me, but that sounds correct. But remember, there are assets in White Wing that we would be selling. So, you're assuming that there's $2.4 billion of assets in White Wing itself that we couldn't sell at all, we couldn't – that are worth zero, which seems to be an awful harsh assessment.

And furthermore, there's a large portfolio of assets on our balance sheet that we are also looking to dispose as well. And you're assuming that we could not dispose of any of those, which is extraordinarily harsh given that outline close to $4 billion now of eight disposition transactions.

Kenneth Lay: And again, of course, as we said, these are traditional energy assets. But in some of those power plant assets, they have long-term contracts with like A rated or AA rated utilities that in fact justify the value that we're putting them at. So, it's not a matter that all of a sudden they just collapse to zero.

Dan Nordby: Right Yes. I understand that. I'm just kind of trying to test this for a worst-case exposure here.

I guess the second question is a little more qualitative. And that is that despite your comments at the beginning about the faith that the board has in the CFO function here, there do seem to be legitimate questions that can and should be raised about how significant cash flow and capital has been allocated in some of these manners over the last couple years. And I certainly wouldn't expect you to comment on conflicts of interest because there probably are legalities. But what things have been put into place to make sure that this doesn't get unfocused and undisciplined going forward?

Kenneth Lay: Let me first say from the standpoint of LJM and Andy's role in that, obviously the board and of course even the lawyers and the auditors and everybody else recognize that there would be an inherent conflict of interest there. And basically, the board developed and prescribed certain procedures and how in fact that could – that in fact would be dealt with and primarily in a way that Enron's interest and Enron's shareholder's interest would never be compromised.

And I will also say that having checked just in the last several days those procedures have been very rigorously followed. So, we do not – we're very concerned the way Andy's character has been kind of loosely thrown about over the last few days in certain articles as well as, of course, the integrity of the company. But we think in fact that all of the necessary protections and procedures were put in place on the front end to make sure that Enron shareholders were in fact fully protected.

And I guess as a question going forward, certainly just in this environment, if nothing else, I think everybody's becoming more disciplined in capital decisions. And certainly we've had this discussion with our team. And think surely probably most companies wouldn't make as large investments in many areas as they did one or two years ago, and that's certainly true with Enron. We're very much in a very disciplined mode, at the same time making sure that our key executives and our core businesses – our wholesale, retail and pipeline businesses – know that they've got good projects or need for capital we're going to provide it for them.

Dan Nordby: I appreciate this. I appreciate your willingness to have this call and, for what it's worth, urge you to continue to have them if confusion persists going forward.

Kenneth Lay: I appreciate that. And I think I did comment at the start that we do intend to do this on a more regular basis here for a while because we do want to try to make sure that the facts get out. We know there are a lot of rumors getting out, lot of speculation getting out, and obviously it's done a lot of damage to us over the last few days. But we're trying our best to get the facts out.

Dan Nordby: Thanks.

Operator: We'll next hear from David Fleischer from Goldman Sachs.

David Fleischer: Hello, Ken.

Kenneth Lay: Hi, David.

David Fleischer: This was going to start out as a question if I had been called earlier, but I think several of them that I was going to ask most about have been asked. I guess what I'd like to do is make this partly a question, but more of a comment and just point out, with all due respect, that what you're hearing from some of these people and many others that you haven't heard from in this call is that the company's credibility is being severely questioned and that there really is a need for much more disclosure. And I appreciate where it's real difficult for you to get into a lot of details on one specific issue with one questioner, but that's exactly what I think needs to happen over maybe a series of conference calls.

There is an appearance that you're hiding something or that you just don't want to – that maybe there's something beneath the surface going on that is less than – that may be questionable. I guess you need to do everything in your power to explain to investors, to demonstrate to investors that your dealings are above board, that the impacts and potential impacts are not negative for Enron, that everyone isn't questioning all these. And so, I would urge you to have daily conference calls or almost daily conference calls to try to explain this with outside auditors to – with whoever to really through these because I think it's absolutely critical to the company that you do that. The disclosure in the footnotes that – one of the questions that Rick said the disclosure is there in the footnotes.

I, for one, find the disclosure is not complete enough for me to understand and explain all the intricacies of those transactions. And that's why there are so many questions here. And I think you're now in a position where you really need to give us a lot more information notwithstanding the fact that you probably want to place limits on that.

But that would be my comment to you.

Kenneth Lay: Well, David, I appreciate that. And certainly, as I also said earlier there are limitations on what we can or should talk about with LJM in particular or related party transactions in general because of both lawsuits, potential lawsuits as well as the SEC inquiry. But again, as you know we are trying to be as transparent as we can. We're trying to provide information. We're not trying to conceal anything. We're not hiding anything.

Probably we scrubbed and rescrubbed and rescrubbed things more in the last couple months than we have in a long, long time. And as you know, in the second quarter – well, first of all, third quarter results told you and everybody else that we're going to provide (lease) allocation of capital numbers from the capital deployed numbers for all of those different segments at year end so you can really begin tracking the returns on investment in different segments. And indeed, I'm very sorry about the misunderstanding to the extent there was a misunderstanding on the $1.2 billion equity reduction.

That – it was deemed that that was not necessary to put in the earnings release or, for that matter, even put out publicly until the 10-Q, but we made the decision to put it out at the same time of the earnings. And my conference call comments is to get everything out there, as we did some other things in those comments. We're really trying to make sure that the analysts and the shareholders and the debt holders really know what's going on here. So, we are not trying to hold anything back.

David Fleischer: OK, thank you. I do think we need a lot more here. Thank you.

Operator: We will next hear from (Dusty Turk) with Simmons.

(Dusty Turk): With Simmons. I applaud your move towards more financial disclosure as well. One of the things that came out in the financial disclosure was the global assets portfolio, which is a $6 billion portfolio with only about $12 million of EBIT year to date. Could you talk about how you look at asset write downs in this portfolio and what you intend to do to improve the earnings in the portfolio and give some specifics if you can by some of the assets in the portfolio?

Kenneth Lay: Well, number one, and again, as we said in the third quarter earnings call, we – in fact, both we and our outside auditors had already looked at all of our assets to determine if we had impairments under the new goodwill accounting rules that take effect first quarter next year. And as you probably recall, out of that review, indeed there was somewhat less than $200 million of adjustments that will be required in the first quarter out of our whole portfolio. And clearly, if there are impairments other than that, why then of course Arthur Andersen as well as our internal accounting staff would require that we write that down also.

Now, as to those assets and earnings so little, and I agree with that, I've now put the operation of those assets under Stan Horton's group. Stan Horton's been running our pipeline group and our utility group in North America for quite some time. We think he's one of the best in the world running those kind of assets and businesses and getting the most return out of them. I think, number one, he will find, and he already has as a matter of fact, just going through the budget reviews and everything he's done over the last two months finding ways to improve earnings from that group of assets. But secondly, as you well know, a lot of those assets are targeted for disposition. And, of course, at least (Sigrio), which is a gas distribution business in Brazil, we sold that to Petrobras and that should close, as Andy said, over the next 30 days. We're making progress on a number of other assets. So, we hope both to increase returns and cash flows from this group of assets at the same time that we reduce the total dollars invested.

(Dusty Turk): Are you looking at any additional capital investment in that portfolio?

Kenneth Lay: It will be modest. Obviously, you'll continue to do what's necessary to maintain reliability and safety. And there may be a few incremental investments that will in fact enhance earnings from assets we already own. But as we've said for some time, we are de-emphasizing our investments in large infrastructure projects in developing countries, and that's what most of those are.

(Dusty Turk): Very good. Thank you.

Kenneth Lay: Thank you.

Operator: We'll next hear from John Olson with Sanders, Morris & Harris.

John Olson: Good morning, gentlemen.

Kenneth Lay: Good morning, John.

John Olson: I think it would be important in terms of credibility to restore it a little bit if you would be so kind as to have Andy Fastow describe the role he played as a general partner in LJM-1 and LJM-2 and how closely monitored he was and how – what kind of review was imposed on the general partner role.

Kenneth Lay: I think, John, and particularly with the SEC deciding that they're going to come in and look at this, which as I said we welcome because this will finally hopefully put all of these issues to rest. But I think because of that I would prefer that Andy not get in too much detail as far as LJM. And let me say there was a Chinese law between LJM and Enron.

And what I did say earlier was that we – that the board put in place and the company adhered to some very strict procedures, which would ensure that any time anybody inside of Enron was dealing with LJM there would be a process whereby in its shareholder's interest would be paramount. And keep in mind that we did not have to put any projects or investments in LJM or any of the other vehicles related to LJM. So, it's strictly discretionary. And obviously it had to be in Enron's best interest before those investments or projects were put in there.

John Olson: I – the "Wall Street Journal" makes a circumstantial case on a number of points. It might be helpful if you would be able to put out something just answering them on a point-by-point issue at some point yourselves.

Second question, if I may, is the $1.2 billion of equity that was basically created through a synthetic transaction why did Arthur Andersen have you put it on the books? Was this really equity or was it something else, a piece of paper?

Kenneth Lay: Rick?

E 31158

Andrew Fastow: It did relate to a contingent – it was (four) equity commitments and, in fact, equity and contingent share commitments. And those were recorded and, again, obviously included in the earnings per share calculation until such time that those were terminated.

John Olson: OK. Third question, it might be helpful, too, gentlemen, if you would make available the financial statements of the various partnerships I don't think that it's any sweat off your backs in terms of disclosure or whatever. But if you would be able to make available White Wing and Atlantic and LJM-1 and 2, I think you would also go a long way towards settling any real or imagined issues here.

Final question, if I may, what is the maintenance capital spending of the company now?

Andrew Fastow: The maintenance capital for the balance of the year is approximately $175 million.

John Olson: And is – can I annualize that to $1.1 billion or $1.2 billion or whatever?

Andrew Fastow: I think that's dangerous. I guess I would prefer to address it again in a follow-up call because I did not – I don't have that number at my fingertips and we typically – it's straight annualizations. It doesn't necessarily (hold).

John Olson: Thank...

Kenneth Lay: But we will provide that, John. We'll be happy to provide that. And also, we certainly will look at providing the financial statements on these other structures.

John Olson: Thank you very much.

Kenneth Lay: I think we're going to have to stop there, operator. And if I could just kind of wrap it up

As we said in the release yesterday, we are continuing to be focused on our core businesses and delivering value to our customers around the world. But we also want to take the time we need to keep all of you informed. We will set up another call in the next couple of weeks, maybe sooner depending on events. Additionally, we will be posting on our Web site frequently asked questions and answers in order to get information out to you quickly starting late this afternoon.

So, again, thanks for participating in this call and thanks for the questions.

Operator: That concludes today's conference. Thank you for your participation.

END